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How advisors should communicate the expected Fed rate cut to clients
By Rob Burgess
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The time has almost come for the Federal Reserve to announce its long-awaited interest rate cut.

The Fed is widely expected to announce at least a 25 basis point drop as it meets this week.

The federal funds rate is currently at 5.25% to 5.50%, the highest in over two decades. Financial advisors and analysts have been waiting for this day for quite some time.

As the big day draws near, advisors and industry experts explain what they are hearing from clients, how they are responding to them and how they will move forward.

The reasons for a rate cut
Patrick A. Kujawa, regional director at Halbert Hargrove in Scottsdale, Arizona, said clients tend to hear basic headlines but do not understand the context behind them. He said many clients have not been through such a confusing period since early 2020.

"Over the past few decades they became accustomed to historically low interest rates and the benefits — higher stock multiples, and lower mortgage, credit card and student loan rates," he said. "But then the Federal Reserve fell behind in recognizing inflation was such a pervasive problem and raised rates aggressively."

Jon McCardle, president of Summit Financial Group of Indiana in Lafayette, Indiana, said while markets "may applaud the possibility of a soft landing, they haven't fully accounted for the reasons behind potential Federal Reserve rate cuts."

"This is a direct response to growing concerns over labor market vulnerabilities and signals of a slowing economy," he said. "Since early summer, we've prepared our clients for this scenario. We've found that by maintaining open and transparent communication, most clients not only understand our strategy but agree with the decision to take profits and reduce exposure, while still staying invested according to their long-term objectives. Our proactive approach contrasts sharply with a passive 'set-it-and-forget-it' model, and it's one of the reasons clients value our method and philosophy."

Kujawa said clients seem to understand his firm's cautious approach "and know

that we are living in a world where situations can change very quickly." He said advisors should educate clients about historical context to stress that investing is an inexact science.

"Changing situations — like the Fed finally starting to cut interest rates — can create opportunities, but also risks and one should be cautious," he said. "While the markets think the Fed will take a certain action, it's good to be humble and cautious and not put oneself in a position to have large losses if situations change. If rates fall because we go into a hard landing or recession, then buying lower-quality credit could likely suffer if global wars including Ukraine and Gaza get worse. Wars have historically been inflationary."

James Rockwood, founder and CEO at CapIntel, said there is "no crystal ball into how the rate cuts will impact the market."

"We've seen double-digit returns as a result of rate cuts, but we've also seen the stock market struggle in the year that follows," he said.

'A prudent strategy is one based in humility'

Timothy Davis, managing director and wealth manager at Davis Executive Wealth Management Group at Steward Partners in Boston, said his firm believes this is a time to stay the course, provided the client's asset allocation aligns with their risk tolerance and investment objectives.

"If you're uncertain about this, now is an excellent time to review and reassess your portfolio," he said. "We continue to favor high-quality dividend payers, small-cap stocks, and long-duration, high-quality fixed-income securities as key overweight positions."

Bill Promes, founder of Austin Creek Capital in Mill Valley, California, said for his clients who have bought a home in the past year or so, the rate cuts are exciting news, as there will likely be opportunities to refinance out of expensive loans.

"For home buyers, lower rates will create new opportunities to finance that home of their dreams," he said. "Advisors should counsel clients that the rate cuts don't mean a change in their overall strategic plan, but rather an opportunity for some tactical shifts to take advantage of the rate cuts."

Benjamin Simerly, founder of Lakehouse Family Wealth, in Mentor, Ohio, said many clients are also excited about rate cuts.

"The advisors I meet with every Monday morning all have clients voicing their frustration with high rates and a continuing lack of bond returns," he said. "People miss the era of 'free money' that we had before COVID, even though rates were unsustainably low."

Simerly said most clients are excited for mortgages to become more affordable again, "and smart advisors will offer a significant number of home-buying plans

to help clients stick within their budgets in the coming home sale madness of 2025."

Kujawa said Halbert Hargrove has stressed to clients that because there are so many competing factors — including inflation due to issues including the supply and international wars — it's difficult to have an accurate forecast.

"A prudent strategy is one based in humility," he said.

The firm has generally educated clients about what the collective market forecasts are signaling, "but acknowledge they could be wrong and we'd rather err on the side of caution." One option moving forward is to extend the duration in a fixed-income portfolio, said Kujawa.

"But given the flat interest rate curve, investors are not currently getting paid to extend too far in duration," he said. "Given the uncertainty about whether the U.S. and global economies are heading into a recession, we don't think it's a good time to become too aggressive with lowering credit standards in the pursuit of higher yields, but modest changes may be appropriate."

Clients who would like to sell real estate or a business might see a window open shortly and should be prepared to act if rates drop enough to attractive levels, said Kujawa.

Cash and CDs are likely to see lower yields shortly, and his firm has "been working with clients to deploy those assets where appropriate."

"For retired clients who have benefited from higher interest rates, now may be an opportune time to 'lock in' yield by buying individual bonds," he said.

Continue thinking long-term

For advisors, Rockwood said this occasion represents an opportunity to educate clients on why rate cuts happen and help guide them through uncertainty.

"You should look at historical performance following a rate cut, explain why you may or may not change product recommendations and strategies, and emphasize the importance of looking at things with a long-term mindset," he said. "Using graphs and visuals to showcase this data is useful for retail investors to understand the ups and downs that may be coming, help prepare them for any volatility and increase their confidence in you as their advisor."

Ryan Zabrowski, director of arbitrage and senior portfolio manager at Krilogy in Creve Coeur, Missouri, said, "If you're doing your job as a planner, you have people focused on longer-term goals."

"If they have shorter-term goals, the financial planning textbook would say we shouldn't be risking that money," he said. "If you have a large purchase that you're going to make in the future, you receive what the market offers you for

those low-risk investments."

McCardle said his firm's clients always know where their money is invested and why after they walk clients through the details of their net performance, fees, contributions, dividends and interest. They then provide a forward-looking view of the economic landscape, highlighting what they expect over the next 90 to 180 days and how it may affect them directly or indirectly.

"While some investors may find this level of detail overwhelming, the clients we serve appreciate the clarity and foresight we offer," he said. "They trust us to keep them informed without the added stress of tracking every market move. We also tailor the frequency of our communications to suit each client's preferences, offering flexibility that adapts to changing needs."